

# **REPORT OF THE AUDITOR-GENERAL TO NORTH WEST PROVINCIAL LEGISLATURE AND THE COUNCIL OF MORETELE LOCAL MUNICIPALITY**

## **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS**

### **Introduction**

1. I have audited the consolidated financial statements of the Moretele Local Municipality and its subsidiary set out on pages xx to xx, which comprise the consolidated and separate statement of financial position as at 30 June 2011, the consolidated and separate statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the consolidated financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), and for such internal control as the accounting officer determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-General's responsibility**

3. My responsibility is to express an opinion on the consolidated and separate financial statements based on conducting the audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### **Basis for disclaimer**

#### **Revenue**

4. My audit report for the prior year was modified due to a lack of sufficient appropriate audit evidence regarding the occurrence and accuracy of sundry revenue amounting to R2 038 482 and regarding the occurrence, accuracy, classification and completeness of R10 423 961 included under government grants and subsidies as disclosed in the consolidated and separate statement of financial performance and note 19 to the financial statements. These matters were not resolved in the year under review. I was unable to determine whether adjustments to the results on the comparative balance for accumulated surplus might have been necessary.
5. I was unable to obtain sufficient appropriate audit evidence for a difference of R1 854 937 between the financial statements and the general ledger pertaining to revenue as disclosed in the statement of financial performance. I was unable to confirm occurrence, accuracy, classification and completeness of revenue by alternative means. Consequently I was unable to determine whether any adjustment relating to revenue in the financial statements was necessary.
6. I was unable to verify the completeness of revenue from service charges as well as rates and taxes of R14 816 306 (2010: R13 421 227) and R2 460 601 respectively as disclosed in the statement of financial performance as the underlying accounting records did not permit

execution of procedures to ensure revenue was accurately and completely recorded. I was unable to confirm accuracy and completeness of revenue by alternative means. Consequently I was unable to determine whether any adjustment relating to revenue in the financial statements was necessary.

7. I was unable to obtain sufficient appropriate audit evidence for the difference of R2 247 000 between the government grants and subsidies as disclosed in the statement of financial performance and in note 19 to the financial statements and the allocation as published in the Division of Revenue Act (Act 1 of 2010).
8. I was unable to obtain sufficient appropriate audit evidence to confirm occurrence and accuracy for adjusting journals to revenue, amounting of R 21 744 320. I was unable to confirm the occurrence and accuracy of these transactions by alternative means. Consequently I was unable to determine whether any adjustments relating to revenue were necessary.

#### **Employee cost**

9. I was unable to obtain sufficient appropriate audit evidence to confirm the occurrence and accuracy for transactions adjusting employee cost, amounting to R4 888 580. I was unable to confirm the occurrence and accuracy of these transactions by alternative means. Consequently I was unable to determine whether any adjustments relating to employee cost in the financial statements were necessary.

#### **Expenditure**

10. I was unable to obtain sufficient appropriate audit evidence for a difference of R2 830 026 between the financial statements and the general ledger pertaining to expenditure disclosed in note 20 to the consolidated and separate financial statements. I was unable to confirm occurrence, accuracy, classification and completeness of expenditure by alternative means. Consequently, I was unable to determine whether any adjustment relating to expenditure in the financial statements was necessary.
11. I was unable to obtain sufficient appropriate audit evidence to confirm occurrence and accuracy for the expenditure transactions of R13 310 002 (2010: R60 083 383) disclosed in note 20 to the consolidated and separate financial statements. I was unable to confirm the expenditure by alternative means. Consequently I was unable to determine whether any adjustments relating to expenditure and retained earnings were necessary.
12. During 2010 I was unable to obtain sufficient appropriate audit evidence about expenditure transactions of R2 378 416. I was unable to confirm the expenditure by alternative means. Consequently I was unable to determine whether any adjustments to this amount and retained earnings were necessary. My audit opinion on the financial statements for the period ended 30 June 2010 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

#### **Property, plant and equipment**

13. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment of R337 841 874 (2011: R289 908 743) disclosed in note 2 to the financial statements due to significant differences between the asset register and physical verifications as well as unreconciled differences between financial statements and the general ledger. I was unable to confirm the existence, completeness, valuation and rights of property, plant and equipment by alternative means. Consequently I was unable to

determine whether any adjustment relating to property, plant and equipment in the financial statements was necessary.

14. SA Standards of GRAP, GRAP 17, *Property, Plant and Equipment* require that the useful life and residual value of an asset shall be reviewed at least at each reporting date. Contrary to this requirement the municipality did not perform a reassessment of useful lives and residual values. I was unable to perform alternative procedures. Consequently, I was unable to satisfy myself as to the valuation of assets of R337 841 874 (2011: R289 908 743) as disclosed in note 2 to the financial statements or the accuracy, occurrence, completeness, classification and cut-off of the depreciation expense of R16 799 545 (2011: R R14 118 247) as per the statement of financial performance.
15. During 2010 the municipality could not provide supporting documentation for revalued assets amounting to R2 397 654. The misstatements remain unresolved and have a material effect on the current year's figures. My audit opinion on the financial statements for the period ended 2010 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.
16. SA Statement of GRAP, GRAP 17, *Property, Plant and Equipment* require that the entity should consider items of property, plant and equipment for impairment losses at each reporting date. I have identified items of property, plant and equipment with a carrying value of R12 514 507 subject to impairment during physical inspection. I could not determine the correct net carrying amount of the other items of property, plant and equipment as it was impracticable to do so.
17. Property on the valuation roll of the municipality amounting to R29 532 819 were not included in the financial statements. Consequently I was unable to verify completeness of property, plant and equipment.

#### **Inventories**

18. The municipality did not recognise water inventory as an asset at the end of the financial period. It furthermore did not recognise any inventory at 30 June 2010, in accordance with Standards of Generally Recognised Accounting Practice, GRAP 12, *Inventories*. There were no satisfactory alternative procedures that I could perform to obtain reasonable assurance in respect of the existence, valuation and completeness of inventories disclosed in note 4 of the separate and consolidated financial statements.

#### **Receivables**

19. SA Standard of GRAP, IAS 39, *Financial Instruments: Recognition and Measurement*, paragraph 58 requires that an entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. I was unable to obtain sufficient appropriate audit evidence for the calculation of the provision for impairment of receivables of R64 496 316 (2010: R29 148 077) disclosed in note 9 to the consolidated and separate financial statements. I have performed alternative audit procedures to determine reasonable impairment provision. The effect is that receivables are overstated by R12 688 580 in the current year and understated by R7 304 871 in prior period.
20. I was unable to obtain sufficient appropriate audit evidence for adjusting journals amounting to R5 509 073 and unreconciled difference of R25 560 362 between financial statements and general ledger included in receivables as disclosed in note 9 to the consolidated and separate financial statements. I was unable to confirm existence, valuation, completeness

and rights and obligations of receivables by alternative means. Consequently I was unable to determine whether any adjustment relating to receivables in the financial statements was necessary.

21. The receivables are materially misstated, as a transaction was processed, which incorrectly decreased the receivables. The effects on the consolidated financial statements are that receivables and accumulated surplus are understated by R5 025 093 respectively.

**Value added taxation**

22. I was unable to obtain sufficient appropriate audit evidence for adjusting journals amounting to R2 575 576 (2010: R2 194 250) included in Value Added Taxation disclosed in note 8 to the consolidated and separate financial statements. I was unable to confirm completeness, valuation and allocation and rights obligations pertaining to Value Added Taxation by alternative means. Consequently I was unable to determine whether any adjustment relating to VAT receivable in the financial statements was necessary.
23. I was unable to obtain sufficient appropriate audit evidence for a difference of R21 879 033 between the financial statements and the general ledger included in VAT receivable disclosed in note 8 to the consolidated and separate financial statements. I was unable to confirm completeness, valuation and allocation and obligations pertaining to Value Added Taxation by alternative means. Consequently I was unable to determine whether any adjustment relating to VAT receivable in the financial statements was necessary.

**Cash and cash equivalents**

24. I was unable to obtain sufficient appropriate audit evidence for cash and cash equivalents of R39 287 654 as disclosed in note 10 to the consolidated and separate financial statements due to unreconciled differences between the financial statements and the general ledger as well as unsupported adjusting journals. I was unable to confirm existence, completeness, valuation and allocation and rights and obligations pertaining cash and cash equivalents by alternative means. Consequently, I was unable to determine whether any adjustment relating to cash and cash equivalents in the financial statements was necessary.

**Finance lease obligations**

25. I was unable to obtain sufficient appropriate audit evidence for a difference of R12 511 498 between the financial statements and the general ledger pertaining to finance lease obligations as disclosed in note 12 to the consolidated and separate financial statements. I was unable to confirm existence, valuation and allocation by alternative means. Consequently, I was unable to determine whether any adjustment relating to finance lease obligations in the financial statements was necessary.
26. I was unable to obtain sufficient appropriate audit evidence for transactions amounting to R14 073 581 included in finance lease obligation as disclosed in note 12 to the consolidated and separate financial statements. I was unable to confirm existence, completeness, valuation and allocation of and rights and obligations by alternative means. Consequently, I was unable to determine whether any adjustment relating to finance lease obligations in the financial statements was necessary.

**Payables**

27. I was unable to obtain sufficient appropriate audit evidence for adjusting journals amounting to R15 503 401 and a difference of R5 991 220 between the financial statements and the general ledger pertaining to payables disclosed in note 15 to the consolidated and separate financial statements. I was unable to confirm existence, completeness, valuation and allocation and rights and obligations by alternative means. Consequently, I was unable to determine whether any adjustment relating to payables in the financial statements was necessary.

28. I was unable to obtain sufficient appropriate audit evidence for trade payables of R107 839 175 (2010: R12 600 490) as disclosed in note 15 to the consolidated and separate financial statements. I was unable to confirm existence, completeness, valuation and allocation and rights and obligations of payables by alternative means. Consequently, I was unable to determine whether any adjustment relating to payables in the financial statements was necessary.
29. I was unable to obtain sufficient appropriate audit evidence for accrued leave pay R2 986 525 as disclosed in note 15 to the consolidated and separate financial statements due to incomplete and inaccurate leave records. I was unable to confirm existence, completeness and valuation of accrued leave pay by alternative means. Consequently, I was unable to determine whether any adjustment relating to accrued leave pay in the financial statements was necessary.

### **Provisions**

30. The municipality did not recognise a provision for the rehabilitation of landfill site in accordance with the SA Statements of GRAP, GRAP 19, *Provisions, Contingent Liabilities and Contingent Assets*. Due to the nature of this type of liability, I was unable to confirm existence, completeness, valuation and allocation and rights and obligations of provisions by alternative means. Consequently, provisions and expenditure are understated by an unquantifiable amount.

### **Accumulated surplus**

31. I was unable to obtain sufficient appropriate audit evidence for a difference of R610 797 659 between the financial statements and the general ledger. I was unable to confirm existence, completeness, valuation and allocation and rights and obligations of accumulated surplus by alternative means. Consequently, I was unable to determine whether any adjustment relating to accumulated surplus in the financial statements was necessary.
32. I was unable to obtain sufficient appropriate audit evidence for movements amounting to R53 860 224 (2010: R56 820 229) included in accumulated surplus. I was unable to confirm completeness and valuation of accumulated surplus by alternative means. Consequently, I was unable to determine whether any adjustment relating to accumulated surplus in the financial statements was necessary.
33. The municipality utilised funds accounting, which is not allowed in terms of the Framework for preparation and presentation of financial statements by creating internal funds and reserves. All internal funds should be ring-fenced as part of accumulated surplus and should not be disclosed as an individual item. The municipality erroneously disclosed an internal fund, the capital replacement reserve as a separate item in the statement of financial position and statement of changes in net assets.
34. The municipality did not reduce the capital replacement reserve to comply with the requirements of paragraph 6.3.1.1 of the GRAP implementation guide for municipalities as issued by National Treasury. The guide states that the capital replacement reserve shall be backed by cash funds, should the reserve not be backed by cash it must be transferred to accumulated surplus. Consequently the accumulated surplus is understated and the reserves (CRR) is overstated by R356 757 625 (2010: R356 759 271) respectively.

### **Aggregation of immaterial uncorrected misstatements**

35. The financial statements as a whole are materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following elements making up the statement of financial position and the statement of financial performance:

- Revenue reflected as R209 162 270 is understated by R720 603
- Expenditure and employee cost reflected as R180 357 260 understated by R729 968
- Current assets reflected as R62 791 822 understated by R809 574
- Current liabilities reflected as R160 624 214 understated by R804 018

In addition, we were unable to obtain sufficient appropriate audit evidence and we were unable to confirm or verify the following elements by alternative means.

- Revenue reflected as R209 162 270
- Expenditure and employee cost reflected as R180 357 260
- Current assets reflected as R62 791 822
- Current liabilities reflected as R160 624 214

As a result, we were unable to determine whether any adjustments to these elements were necessary.

### **Irregular expenditure**

36. Section 125(2)(d)(i) of the MFMA requires disclosure of all material irregular expenditure. I was unable to obtain sufficient appropriate audit evidence for awards of R 32 334 889 made in terms of the municipality's supply chain management policy. In addition, irregular expenditure incurred of R 1 898 240 due to payments made in contravention with the municipality's supply chain management policy and irregular expenditure of R7 606 865 due to utilisation of grant funding for operations was not disclosed in the notes to the financial statements. Consequently, I was unable to determine the understatement of irregular expenditure.

### **Fruitless and wasteful expenditure**

37. Section 125(2)(d)(i) of the MFMA requires disclosure of fruitless and wasteful expenditure. I have identified fruitless and wasteful expenditure amounting to R1 425 240 (2010: R3 021 821) which have not been recovered or investigated as required by section 32(2) of the MFMA. The fruitless and wasteful expenditure was not disclosed in the notes to the financial statements.

### **Unauthorised expenditure**

38. Section 15 of the MFMA requires a municipality to incur expenditure only in terms of an approved budget. The municipality overspent the total amount appropriated in the municipality's approved budget by R4 209 775 (2010: R17 475 716). The unauthorised expenditure was not disclosed in the notes to the financial statements as required by section 125(2)(d)(i) of the MFMA.

### **Commitments**

39. The municipality did not disclose the capital commitments in accordance with the South African Statement of GRAP, GRAP 17, *Property, plant and equipment*. I was unable to obtain sufficient appropriate audit evidence or by alternative means to confirm the

completeness of capital commitments. Consequently I was unable to determine if the disclosure in the financial statements was complete.

#### **Related parties**

40. The municipality did not disclose the remuneration of key management personnel or transactions with the controlled entity in accordance with the International Public Sector Accounting Standards, IPSAS 20, *Related party disclosures*. The remuneration of key management personnel with an aggregate amount of R3 522 650 (2010: Unknown) and the transfer payment to the controlled entity of R250 000 (2010: Unknown) should be disclosed in financial statements.

#### **Standards of Generally Recognised Accounting Practice reporting framework and disclosures in financial statements**

41. The municipality did not comply with the following requirements in terms of the framework:

- The municipality did not present and disclose the Standards of GRAP that have been adopted during the current financial year and the potential impact of standards that have been approved but not yet adopted as required by Standards of Generally Recognised Accounting Practice, GRAP 1, *Presentation of Financial Statements*.
- The municipality did not present and disclose the correction of prior year errors in the financial statements as required by Standard of Generally Recognised Accounting Practice, GRAP 3, *Accounting policies, changes in accounting estimates and errors*. Consequently, I was unable to satisfy myself on the presentation and disclosure of the prior year errors as disclosed in paragraph 27 of this report.
- The municipality did not ensure that all disclosure requirements of International Accounting Standards, IAS 19, *Employee Benefits* were disclosed.
- The municipality did not ensure that all disclosure requirements of International Financial Reporting Standards, IFRS 7, *Financial Instruments: Disclosures*, was disclosed.
- I was unable to obtain sufficient appropriate audit evidence for the differences between my calculation and the balance disclosed on the cash flow statement in the financial statements. Payments to employees are overstated by an amount of R2 551 963 and the payments to suppliers are understated by an amount of R30 894 867. I was unable to satisfy myself on the presentation and disclosure of the payments on the cash flow statement as required by Standards of Generally Recognised Accounting Practice, GRAP 2, *Cash flow statement*.

42. Section 123(1)&(2) of the MFMA requires that the notes to the annual financial statements of a municipality must disclose details of the allocations received, whether conditions have been met as well as the the amounts spent per vote. The municipality did not disclose details of the allocations received, whether conditions have been met as well as the the amounts spent per vote.

43. An unexplained difference of R2 042 235 exists between the balance of accumulated surplus for the comparative of R158 021 934 in the statement of changes in net assets and the statement of financial position disclosed as R160 064 169.

44. The municipality incorrectly disclosed the executive mayor's remuneration as R3 335 301



(2010: R3 129 690) in note 22 to the financial statements. These amounts are part of the total councillors' remuneration and not that of the mayor only.

### **Distribution losses**

45. Section 125(2)(d)(i) of the MFMA requires that the notes to the annual financial statements of a municipality must disclose the particulars of any material losses. The municipality did not conduct an evaluation of material losses relating to water and electricity for the year under review and no disclosure was made in the financial statements in accordance with the requirements of the MFMA. I have calculated the distribution loss at 56% of purchases.

### **Disclaimer of opinion**

46. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

### **Emphasis of matters**

47. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Material impairments**

48. As disclosed in note 24 to the financial statements, material losses to the amount of R35 348 239 were incurred as a result of impairment of receivables due to poor collection practices.

### **Material under spending of conditional grants**

49. The municipality has materially under spent its conditional grants. At the date of this report, the under spending amounted to R44 458 106 (2010: R20 272 232). This under spending relates to mainly the municipal infrastructure grant and is due to projects not implemented.

### **Additional matters**

50. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Transactions entered into without due regard for economy**

51. The municipality has entered into two agreements with the same vendor, relating to the leasing of information technology equipment and related infrastructure. The total amount of R18 194 475 has been incurred for two computer servers, which have been concluded without a proper assessment of the municipality's needs. These contract amounts in my view are excessive in relation to my assessment of the requirements of this municipality.
52. The municipality has also contracted with a service provider to render consulting services with regard to information technology services on a monthly basis, ongoing. A number of the functions performed by the consultant relates to non-specialised services, which should be rendered by the municipal staff, when properly trained. The amount paid to the consultant during the year in the amount of R5 924 559 is considered to be excessive in relation to the service provided.
53. A service provider rendering consulting services with regards to VAT submissions. This function can be performed by municipal staff when properly trained. The consultant is entitled to 15% of the refunded amount, which in my view is an excessive percentage as

the municipality has a limited amount of VAT Output it declares and would therefore mostly only have large amounts of VAT Input claims. The amount paid to the consultant during the year amounted to R3 379 452 and the skills have not been transferred to the staff.

54. The municipality has also contracted with legal council to advise and assist with the legal proceedings of the municipality. A standard 5% drawing fee is added to every invoice, for which no economic justification exist. Invoices from this particular legal council appear to be excessive in relation to the description of the service rendered. Included in the amounts of R4 692 795 paid to the service provider, I identified amounts that I viewed as excessive charges, whether agreed with attorney or not.

#### **Unaudited supplementary schedules**

55. The supplementary information set out on pages 31 to 43 does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.
56. The supplementary explanations of budget variances contained in appendix E to the consolidated financial statements, do not form part of the financial statements. I have not audited these explanations and accordingly I do not express an opinion thereon.

#### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

57. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

#### **Predetermined objectives**

58. I was unable to report on the usefulness and reliability of the annual performance report of the municipality as it was not prepared as required by section 46 of the MSA and section 121(3)(c) of the MFMA.

#### **Compliance with laws and regulations**

59. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

#### **Strategic planning and performance management**

60. The municipal council did not adopt an integrated development plan, as required by section 25 of the Municipal Systems Act.
61. The municipality did not establish a performance management system, as required by section 38(a) of the Municipal Systems Act.

#### **Annual financial statements, performance and annual reports**

62. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act.

Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.

63. The 2009/10 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.
64. Written explanation was not submitted to council setting out the reasons for the delay in the tabling of the 2009/10 annual report in the council, as required by section 127(3) of the Municipal Finance Management Act.
65. The annual performance report for the financial year under review was not prepared and was not included in the annual report, as required by section 46 of the Municipal Systems Act and section 121(3)(c) of the Municipal Finance Management Act.

#### **Audit committee**

66. The audit committee did not advise the council and political office bearers on matters relating to internal financial control and internal audits, risk management, accounting policies, effective governance, performance management and performance evaluation as required by section 166(2)(a) of the MFMA.
67. The audit committee did not advise the council and political office bearers on matters relating to compliance with the MFMA and Division of Revenue Act, 2011 (Act No. 6 of 2011) (DoRA) as required by section 166(2)(a)(vii) of the MFMA.

#### **Internal audit**

68. The internal audit unit did not function as required by section 165(2) of the Municipal Finance Management Act, in that:
  - it did not prepare a risk-based audit plan and an internal audit programme for the financial year under review.
  - it did not report to the audit committee on the implementation of the internal audit plan.
  - it did not advise the accounting officer and report to the audit committee on matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management and loss control.
69. The internal audit unit did not report to the audit committee on matters relating to compliance with the MFMA and the DoRA and other applicable legislation, as required by section 165(2)(b) of the MFMA.
70. The internal audit did not audit the results of performance measurements, as required by section 45(1)(a) of the MSA and Municipal Planning and Performance Management Regulation 14(1)(a).
71. The internal audit unit did not assess the functionality of the performance management system, whether the performance management system complied with the requirements of the MSA and the extent to which the performance measurements were reliable in measuring the performance of the municipality on key and general performance indicators, as required by Municipal Planning and Performance Management Regulation 14(1)(b) (i) (ii) and (iii).

### **Procurement and contract management**

- 72. Sufficient appropriate audit evidence could not be obtained that all contracts and quotations were awarded in accordance with the legislative requirements and a procurement process which is fair, equitable, transparent and competitive, as tender documents could not be provided due to inadequate record management.
- 73. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) & (c).
- 74. The preference point system was not applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).

### **Expenditure management**

- 75. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the Municipal Finance Management Act.
- 76. The accounting officer did not take effective steps to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) and 95(d) of the MFMA.
- 77. Unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure was not recovered from the liable person, as required by section 32(2) of the Municipal Finance Management Act.

### **Transfer of funds and/or conditional grants**

- 78. Sufficient appropriate audit evidence could not be obtained to determine if the municipality did comply with the requirements of the grant framework, as required by section 12(1) of the Division of Revenue Act.
- 79. The municipality did not disclose in its financial statements the purpose and amount of grants, as required by section 31 of the Division of Revenue Act.

### **Asset and liability management**

- 80. Sufficient appropriate audit evidence was not provided in time to determine if capital assets were sold with the approval of the council, as required by section 14(2)(a) of the Municipal Finance Management Act and Municipal Asset Transfer Regulation 5.
- 81. Sufficient appropriate audit evidence was not provided in time to determine if short-term debt in the form of Bank overdraft was incurred with a resolution of the municipal council approving the debt agreement, as required by section 45(2) of the Municipal Finance Management Act.
- 82. Sufficient appropriate audit evidence was not provided in time to determine if long-term debt was incurred with a resolution of the municipal council approving the debt agreement, in accordance with section 46(2) of the Municipal Finance Management Act.

### **Internal control**

83. I considered internal control relevant to my audit of the financial statements, performance information and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on the performance information and the findings on compliance with laws and regulations included in this report.

### **Leadership**

84. The accounting officer did not implement adequate review regarding financial and performance reporting and this resulted in recurring material misstatements being reported and no annual performance reported being compiled. Policies and procedures did not adequately guide financial and performance activities. Action plans were not designed to address prior year audit findings and this reflected negatively on management's ability to address recurring audit findings.

### **Financial and performance management**

85. Management failed to implement effective controls to ensure that information in the financial statements and the report on predetermined objectives were reliable before submission for audit. This was mainly due to the inability of management to address the prior years' audit findings and staff in the finance section not understanding the requirements of the financial reporting framework. The ignorance of management to address the repetitive findings relating to supply chain management regulations is indicative of financial misconduct.

### **Governance**

86. The risk assessment process relating to financial and performance reporting and compliance with laws and regulations were not performed to identify and respond to risks that might affect the municipality negatively. The audit committee did not effectively fulfill its oversight function regarding the internal control environment over financial and performance information and compliance with laws and regulations.

Rustenburg

28 February 2013



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*